

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(MARK ONE)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2001

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period fromto.....
Commission file number 1-10765

UNIVERSAL HEALTH SERVICES, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

23-2077891

(State or other jurisdiction of
Incorporation or Organization)

(I.R.S. Employer
Identification No.)

UNIVERSAL CORPORATE CENTER
367 SOUTH GULPH ROAD
KING OF PRUSSIA, PENNSYLVANIA 19406

(Address of principal executive office) (Zip Code)

Registrant's telephone number, including area code (610) 768-3300

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No
--- ---

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Common shares outstanding, as of July 31, 2001:

Class A	3,848,886
Class B	55,701,334
Class C	387,848
Class D	40,542

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PART I. FINANCIAL INFORMATION

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(000s omitted except per share amounts)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
Net revenues	\$ 718,596	\$ 524,828	\$ 1,395,545	\$ 1,065,832
Operating charges:				
Salaries, wages and benefits	282,278	202,668	550,560	413,531
Other operating expenses	169,876	120,609	320,782	237,546
Supplies expense	92,979	72,603	182,347	146,515
Provision for doubtful accounts	62,678	41,883	117,905	86,863
Depreciation and amortization	32,248	28,159	62,043	55,803
Lease and rental expense	13,470	11,920	26,110	23,869
Interest expense, net	10,506	7,192	18,962	14,520
	664,035	485,034	1,278,709	978,647
Income before minority interests, effect of foreign exchange and derivative transactions and income taxes	54,561	39,794	116,836	87,185
Minority interests in earnings of consolidated entities	3,699	3,371	7,624	6,514
(Gains) losses on foreign exchange and derivative transactions	(26)	---	1,401	---
Income before income taxes	50,888	36,423	107,811	80,671
Provision for income taxes	18,498	13,114	39,250	28,733
Net income	\$ 32,390	\$ 23,309	\$ 68,561	\$ 51,938
Earnings per common share - basic	\$0.54	\$0.39	\$1.15	\$0.86
Earnings per common share - diluted	\$0.51	\$0.38	\$1.08	\$0.84
Weighted average number of common shares - basic	59,918	60,238	59,873	60,710
Weighted average number of common share equivalents	7,306	2,040	7,313	1,484
Weighted average number of common shares and equivalents - diluted	67,224	62,278	67,186	62,194

See accompanying notes to these condensed consolidated financial statements.

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(000s omitted, unaudited)

	June 30, 2001	December 31, 2000
Assets		

Current assets:		
Cash and cash equivalents	\$ 24,525	\$ 10,545
Accounts receivable, net	406,523	376,601
Supplies	48,634	45,518
Deferred income taxes	23,043	17,943
Other current assets	26,799	25,848
	-----	-----
Total current assets	529,524	476,455
	-----	-----
Property and equipment	1,507,199	1,350,950
Less: accumulated depreciation	(556,048)	(512,704)
	-----	-----
	951,151	838,246
Funds restricted for construction	28,659	37,381
	-----	-----
	979,810	875,627
	-----	-----
Other assets:		
Excess of cost over fair value of net assets acquired	391,553	316,777
Deferred charges	16,787	17,223
Other	62,945	56,295
	-----	-----
	471,285	390,295
	-----	-----
	\$ 1,980,619	\$ 1,742,377
	=====	=====
Liabilities and Stockholders' Equity		

Current liabilities:		
Current maturities of long-term debt	\$ 844	\$ 689
Accounts payable and accrued liabilities	282,480	245,623
Federal and state taxes	6,217	2,528
	-----	-----
Total current liabilities	289,541	248,840
	-----	-----
Other noncurrent liabilities	86,854	71,730
	-----	-----
Minority interest	122,203	120,788
	-----	-----
Long-term debt, net of current maturities	663,793	548,064
	-----	-----
Deferred income taxes	35,772	36,381
	-----	-----
Common stockholders' equity:		
Class A Common Stock, 3,848,886 shares outstanding in 2001, 3,848,886 in 2000	38	38
Class B Common Stock, 55,694,885 shares outstanding in 2001, 55,549,312 in 2000	557	556
Class C Common Stock, 387,848 shares outstanding in 2001, 387,848 in 2000	4	4
Class D Common Stock, 41,614 shares outstanding in 2001, 44,530 in 2000	-----	-----
Capital in excess of par, net of deferred compensation of \$634 in 2001 and \$485 in 2000	143,204	139,953
Retained earnings	644,583	576,023
Accumulated other comprehensive income (loss)	(5,930)	-----
	-----	-----
	782,456	716,574
	-----	-----
	\$ 1,980,619	\$ 1,742,377
	=====	=====

See accompanying notes to these condensed consolidated financial statements.

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(000s omitted - unaudited)

	Six Months Ended June 30,	
	2001	2000
Cash Flows from Operating Activities:		
Net income	\$68,561	\$51,938
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation & amortization	62,043	55,803
Minority interests in earnings of consolidated entities	7,624	6,514
Accretion of discount on convertible debentures	5,125	-----
Losses on foreign exchange and derivative transactions	1,401	-----
Changes in assets & liabilities, net of effects from acquisitions and dispositions:		
Accounts receivable	10,558	(7,758)
Accrued interest	(55)	(1,722)
Accrued and deferred income taxes	3,658	7,627
Other working capital accounts	10,021	(1,868)
Other assets and deferred charges	2,805	(8,996)
Increase in working capital at acquired facilities	(13,201)	-----
Other	(4,662)	(2,980)
Accrued insurance expense, net of commercial premiums paid	12,298	4,103
Payments made in settlement of self-insurance claims	(6,088)	(5,477)
Net cash provided by operating activities	160,088	97,184
Cash Flows from Investing Activities:		
Property and equipment additions, net	(69,408)	(46,191)
Acquisition of businesses	(179,240)	-----
Investment in business	-----	(15,123)
Proceeds received from divestitures, net	-----	5,753
Net cash used in investing activities	(248,648)	(55,561)
Cash Flows from Financing Activities:		
Additional borrowings	133,534	243,126
Reduction of long-term debt	(25,000)	(268,036)
Distributions to minority partners	(7,287)	(665)
Issuance of common stock	1,293	2,665
Repurchase of common shares	-----	(19,342)
Net cash provided by (used in) financing activities	102,540	(42,252)
Increase (decrease) in cash and cash equivalents	13,980	(629)
Cash and cash equivalents, Beginning of Period	10,545	6,181
Cash and cash equivalents, End of Period	\$24,525	\$5,552
Supplemental Disclosures of Cash Flow Information:		
Interest paid	\$13,892	\$15,897
Income taxes paid, net of refunds	\$35,592	\$21,133

See accompanying notes to these condensed consolidated financial statements.

(1) General

The consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission and reflect all adjustments which, in the opinion of the Company, are necessary to fairly present results for the interim periods. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the accompanying disclosures are adequate to make the information presented not misleading. It is suggested that these financial statements be read in conjunction with the financial statements, accounting policies and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000. Certain prior year amounts have been reclassified to conform with current year financial presentation.

(2) Other Noncurrent and Minority Interest Liabilities

Other noncurrent liabilities include the long-term portion of the Company's professional and general liability, compensation reserves, and pension liability.

The minority interest liability consists primarily of a 27.5% outside ownership interest in three acute care facilities located in Las Vegas, Nevada and a 20% outside ownership in an acute care facility located in Washington D.C.

(3) Commitments and Contingencies

Under certain agreements, the Company has committed or guaranteed an aggregate of \$61 million related principally to the Company's self-insurance programs and as support for various debt instruments and loan guarantees, including a \$40 million surety bond related to the Company's 1997 acquisition of an 80% interest in The George Washington University Hospital.

(4) Accounting for Derivative Instruments and Hedging Activities

Effective January 1, 2001, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities", and its corresponding amendments under SFAS No. 138. SFAS No. 133 requires the Company to measure every derivative instrument (including certain derivative instruments embedded in other contracts) at fair value and record them in the balance sheet as either an asset or liability. For derivatives designated as fair value hedges, the changes in fair value of both the derivative instrument and the hedged item are recorded in earnings. For derivatives designated as cash flow hedges, the effective portions of changes in the fair value of the derivative are reported in other comprehensive income ("OCI"). The ineffective portions of hedges are recognized in earnings in the current period.

The adoption of this new standard as of January 1, 2001 resulted in an increase of \$3.3 million in other assets to recognize at fair value all derivatives that are designated as fair-value hedging instruments and \$3.3 million of long term debt to recognize the difference between the carrying values and fair values of related hedged liabilities. For the three and six month periods ended June 30, 2001, the Company recorded an increase of an additional \$700,000 and \$2.1 million, respectively, in other assets and long term debt to recognize the increased value of the fair-value

hedging instruments. There was no gain or loss recognized in earnings as a result of a hedged firm commitment no longer qualifying as a fair value hedge.

Upon the January 1, 2001 adoption of SFAS No. 133, the Company also recorded a pre-tax cumulative effect of an accounting change of approximately \$7.6 million in other comprehensive income (\$4.8 million after-tax), recorded during the quarter ended March 31, 2001, to recognize at fair value all derivatives that are designated as cash flow hedging instruments. The Company expects to reclassify into earnings during the next twelve months \$1.6 million from the transition adjustments that were recorded in accumulated OCI. To recognize the change in value during the three and six month periods of June 30, 2001, the Company recorded, in other comprehensive income, pre-tax income of \$2.1 million (\$1.4 million after-tax) during the quarter ended June 30, 2001 and a pre-tax charge of \$3.1 million (\$1.9 million after-tax) during the six month period ended June 30, 2001. The gains or losses are reclassified into earnings as the underlying hedged item affects earnings, such as when the forecast interest payment occurs. It is expected that \$743,000 of net losses in accumulated OCI will be reclassified into earnings within the next twelve months. The Company also recorded an after-tax charge of approximately \$100,000 during the six month period ended June 30, 2001 (the majority of which was recorded during the quarter ended March 31, 2001) to recognize the ineffective portion of the cash flow hedging instruments. As of June 30, 2001, the maximum length of time over which the Company is hedging its exposure to the variability in future cash flows for forecasted transactions is through August 2005. There was no gain or loss reclassified from accumulated OCI into earnings during the six month period ended June 30, 2001, as a result of the discontinuance of a cash flow hedge due to the probability of the original forecasted transaction not occurring.

The Company formally assesses, both at inception of the hedge and on an ongoing basis, whether each derivative is highly effective in offsetting changes in fair values or cash flows of the hedged item. If it is determined that a derivative is not highly effective as a hedge or if a derivative ceases to be a highly effective hedge, the Company will discontinue hedge accounting prospectively.

The Company manages its ratio of fixed to floating rate debt with the objective of achieving a mix that management believes is appropriate. To manage this mix in a cost-effective manner, the Company, from time to time, enters into interest rate swap agreements, in which it agrees to exchange various combinations of fixed and/or variable interest rates based on agreed upon notional amounts. All of the Company's cash flow hedges relate to the payment of variable interest on existing debt.

Foreign Currency Risk:

In connection with the Company's first quarter of 2001 purchase of a 80% ownership interest in an operating company that owns eight hospitals in France, the Company extended an intercompany loan denominated in francs. Included in the Company's financial results for the six month period ended June 30, 2001 was a \$1.3 million pre-tax loss (\$800,000 after-tax), recorded during the quarter ended March 31, 2001, resulting from foreign exchange fluctuations related to this intercompany loan. In the quarter ended June 30, 2001, the Company entered into certain forward exchange contracts to hedge the exposure associated with foreign currency fluctuations on the intercompany loan. These contracts are not designated as hedging instruments and changes in the fair value of these items are recorded in earnings to offset the foreign exchange gains and losses of the intercompany loan. The effect of the change in fair value of the contract for the three-month period ended June 30, 2001 was a gain of \$1.4 million and offset a \$1.4 million exchange loss on the intercompany loan.

(5) Segment Reporting

The Company's reportable operating segments consist of acute care services (including the hospitals located in France in which the Company has an 80% ownership interest), and behavioral

health care services. The "Other" segment column below includes centralized services including information services, purchasing, reimbursement, accounting, taxation, legal, advertising, design and construction, and patient accounting. Also included are the operating results of the Company's other operating entities including the outpatient surgery and radiation therapy centers and specialized women's health center. The chief operating decision maker and the lead executive for the Company's acute care services is the Company's President and Chief Executive Officer and the chief operating decision making group for the behavioral health care services is comprised of the Company's President and Chief Executive Officer and the lead executive of the Company's behavioral health services' segment. The lead executive for each operating segment also manages the profitability of each respective segment's various hospitals. The operating segments are managed separately because each operating segment represents a business unit that offers different types of healthcare services. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies.

Three Months Ended June 30, 2001

	Acute Care Services	Behavioral Health Services	Other	Total Consolidated
(Dollar amounts in thousands)				
Gross inpatient revenues	\$1,005,108	\$232,652	\$2,120	\$1,239,880
Gross outpatient revenues	\$364,708	\$38,111	\$36,651	\$439,470
Total net revenues	\$561,314	\$140,153	\$17,129	\$718,596
EBITDAR (A)	\$98,435	\$28,497	(\$16,147)	\$110,785
Total assets as of 6/30/01	\$1,543,687	\$290,705	\$146,227	\$1,980,619
Licensed beds	6,369	3,735	-----	10,104
Available beds	5,518	3,591	-----	9,109
Patient days	348,231	244,080	-----	592,311
Admissions	80,684	19,760	-----	100,444
Average length of stay	4.3	12.4	-----	5.9

Three Months Ended June 30, 2000

	Acute Care Services	Behavioral Health Services	Other	Total Consolidated
(Dollar amounts in thousands)				
Gross inpatient revenues	\$734,532	\$121,442	\$4,812	\$860,786
Gross outpatient revenues	\$270,591	\$18,897	\$29,131	\$318,619
Total net revenues	\$430,775	\$75,386	\$18,667	\$524,828
EBITDAR (A)	\$79,903	\$15,386	(\$8,224)	\$87,065
Total assets as of 6/30/00	\$1,226,382	\$146,444	\$152,265	\$1,525,091
Licensed beds	4,843	2,044	-----	6,887
Available beds	4,150	2,029	-----	6,179
Patient days	241,221	122,878	-----	364,099
Admissions	51,564	10,133	-----	61,697
Average length of stay	4.7	12.1	-----	5.9

Six Months Ended June 30, 2001

	Acute Care Services	Behavioral Health Services	Other	Total Consolidated
(Dollar amounts in thousands)				
Gross inpatient revenues	\$2,023,462	\$460,515	\$5,313	\$2,489,290
Gross outpatient revenues	\$706,734	\$74,135	\$67,197	\$848,066
Total net revenues	\$1,089,891	\$272,731	\$32,923	\$1,395,545
EBITDAR (A)	\$201,925	\$54,682	(\$32,656)	\$223,951
Total assets as of 6/30/01	\$1,543,687	\$290,705	\$146,227	\$1,980,619
Licensed beds	5,918	3,717	-----	9,635
Available beds	5,067	3,573	-----	8,640
Patient days	640,981	477,095	-----	1,118,076
Admissions	142,569	39,508	-----	182,077
Average length of stay	4.5	12.1	-----	6.1

Six Months Ended June 30, 2000

	Acute Care Services	Behavioral Health Services	Other	Total Consolidated
(Dollar amounts in thousands)				
Gross inpatient revenues	\$1,532,775	\$237,632	\$11,345	\$1,781,752
Gross outpatient revenues	\$530,993	\$44,265	\$59,279	\$634,537
Total net revenues	\$880,735	\$149,051	\$36,046	\$1,065,832
EBITDAR (A)	\$169,211	\$28,868	(\$16,702)	\$181,377
Total assets as of 6/30/00	\$1,226,382	\$146,444	\$152,265	\$1,525,091
Licensed beds	4,832	2,051	-----	6,883
Available beds	4,130	2,036	-----	6,166
Patient days	508,566	243,755	-----	752,321
Admissions	106,967	20,736	-----	127,703
Average length of stay	4.8	11.8	-----	5.9

(A) EBITDAR - Earnings before interest, income taxes, depreciation, amortization, lease & rental, minority interest expense and gains/losses on foreign exchange and derivative transactions.

(6) Earnings Per Share Data ("EPS")

In April, 2001, the Company declared a two-for-one stock split in the form of a 100% stock dividend which was paid on June 1, 2001 to shareholders of record as of May 16, 2001. All classes of common stock participated on a pro rata basis. All references to share quantities and earnings per share for all periods presented have been adjusted to reflect the two-for-one stock split.

The following table sets forth the computation of basic and diluted earnings per share for the periods indicated.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001 ----	2000 ----	2001 ----	2000 ----
	In thousands, except per share data			
Basic:				
Net income	\$32,390	\$23,309	\$68,561	\$51,938
Average shares outstanding	59,918	60,238	59,873	60,710
Basic EPS	\$ 0.54	\$ 0.39	\$ 1.15	\$ 0.86
	=====	=====	=====	=====
Diluted:				
Net income	\$32,390	\$23,309	\$68,561	\$51,938
Add discounted convertible debenture interest, net of income tax effect	2,049	238	4,019	238
Totals	\$34,439	\$23,547	\$72,580	\$52,176
	=====	=====	=====	=====
Average shares outstanding	59,918	60,238	59,873	60,710
Net effect of dilutive stock options and grants based on the treasury stock method	728	1,244	735	1,086
Assumed conversion of discounted convertible debentures	6,578	796	6,578	398
	-----	-----	-----	-----
Totals	67,224	62,278	67,186	62,194
	-----	-----	-----	-----
Diluted EPS	\$0.51	\$ 0.38	\$ 1.08	\$0.84
	=====	=====	=====	=====

(7) Comprehensive Income (Loss)

Comprehensive income (loss) represents net income (loss) plus the results of certain non-shareholders' equity changes not reflected in the Consolidated Statements of Income. The components of comprehensive income (loss), net of income taxes, (except for foreign currency translation adjustments which are not currently adjusted for income taxes since they relate to indefinite investments in non-United States subsidiaries) are as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2001 ----	2000 ----	2001 ----	2000 ----
Net income	\$32,390	\$23,309	\$68,561	\$51,938
Other comprehensive income (loss):				
Foreign currency translation adjustments	1,907	---	782	---
Cumulative effect of change in accounting principle (SFAS No. 133) on other comprehensive income (net of income tax effect)	---	---	(4,779)	---
Unrealized derivative losses on cash flow hedges (net of income tax effect)	1,347	---	(1,933)	---
	-----	-----	-----	-----
Comprehensive income	\$35,644	\$23,309	\$62,631	\$51,938
	=====	=====	=====	=====

(8) New Accounting Pronouncements Not Yet Adopted:

In July 2001, the FASB issued SFAS 141, "Business Combinations," and SFAS 142, "Goodwill and Other Intangible Assets." These statements make significant changes to the accounting for business combinations, goodwill, and intangible assets.

SFAS 141 establishes new standards for accounting and reporting requirements for business combinations and requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Use of the pooling-of-interest method will be prohibited. This statement is effective for business combinations completed after June 30, 2001.

SFAS 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets and supersedes APB Opinion No. 17, "Intangible Assets." The provisions of this statement are required to be applied by the Company beginning January 1, 2002. This statement is required to be applied to all goodwill and other intangible assets recognized in the Company's financial statements at the date of adoption. Upon adoption, goodwill will no longer be amortized but will be subject to at least an annual assessment for impairment by applying a fair-value-based test. Impairment losses that arise due to the initial application of this statement will be reported as a cumulative effect of a change in accounting principle. The Company has not yet quantified the impact of adopting this statement on its financial statements.

(9) Subsequent Event

Subsequent to June 30, 2001 the Company received notice from its counter-party that on August 15, 2001, they will exercise their option to terminate the interest rate swap with a notional principal amount of \$135 million and scheduled termination date of August 15, 2005. This swap is a designated fair value hedge to the Company's 8 3/4%, \$135 million bonds. The termination is expected to result in a net payment to the Company of approximately \$3.5 million. Upon the termination of the fair value hedge, the Company will cease adjusting the fair value value of the debt and the resulting difference between the fair value at termination and the face value of the debt will be amortized over the remaining life of the hedged debt using the effective interest method. If the hedged debt is called prior to maturity, any remaining difference would be recognized in current period earnings.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND
FINANCIAL CONDITION

Forward-Looking Statements

The matters discussed in this report as well as the news releases issued from time to time by the Company include certain statements containing the words "believes", "anticipates", "intends", "expects" and words of similar import, which constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance achievements of the Company or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among other things, the following: that the majority of the Company's revenues are produced by a small number of its total facilities; possible changes in the levels and terms of reimbursement for the Company's charges by government programs, including Medicare or Medicaid or other third party payers; industry capacity; demographic changes; existing laws and government regulations and changes in or failure to comply with laws and governmental regulations; the ability to enter into managed care provider agreements on acceptable terms; liability and other claims asserted against the Company; competition; the loss of significant customers; technological and pharmaceutical improvements that increase the cost of providing, or reduce the demand for healthcare; the ability to attract and retain qualified personnel, including physicians, the ability of the Company to successfully integrate its recent acquisitions; the Company's ability to finance growth on favorable terms and, other factors referenced in the Company's 2000 Form 10-K or herein. Given these uncertainties, prospective investors are cautioned not to place undue reliance on such forward-looking statements. The Company disclaims any obligation to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

Results of Operations

Net revenues increased 37% to \$719 million for the three months ended June 30, 2001 as compared to \$525 million in the same prior year period and increased 31% to \$1.396 billion for the six months ended June 30, 2001 as compared to \$1.066 billion during the comparable 2000 six month period. The \$194 million increase in net revenues during the 2001 second quarter as compared to the comparable prior year quarter was due primarily to: (i) \$110 million of net revenues generated at twenty-seven acute care and behavioral health care facilities acquired in the U.S. and France since the third quarter of 2000, and; (ii) \$86 million or 17% increase in net revenues generated at acute care and behavioral health care facilities owned during both periods. The \$330 million increase in net revenues during the six months ended June 30, 2001 as compared to the comparable prior year six month period was due primarily to: (i) \$195 million of net revenues generated at twenty-seven acute care and behavioral health care facilities acquired in the U.S. and France since the third quarter of 2000, and; (ii) \$137 million or 13% increase in net revenues generated at acute care and behavioral health care facilities owned during both periods.

Earnings before interest, income taxes, depreciation, amortization and lease and rental expense (before deducting minority interests in earnings of consolidated entities) ("EBITDAR") increased 27% to \$111 million for the three month period ended June 30, 2001 from \$87 million in the comparable prior year quarter and increased 24% to \$224 million during the six month period ended June 30, 2001 as compared to \$181 million during the comparable 2000 six month period.

Overall operating margins were 15.4% in the 2001 second quarter as compared to 16.6% in the 2000 second quarter and 16.0% for the six month period ended June 30, 2001 as compared to 17.0% during the six month period ended June 30, 2000. The factors causing the decrease in the overall operating margins, which occurred primarily in the Company's acute care services' segment, are discussed below.

Acute Care Services

Net revenues from the Company's acute care hospitals (including the eight hospitals in France acquired during the first quarter of 2001), ambulatory treatment centers and specialized women's health center accounted for 80% and 85% of consolidated net revenues for each of the quarters ended June 30, 2001 and 2000, respectively, and 80% and 86% for the six month periods ended June 30, 2001 and 2000, respectively. Net revenues at the Company's acute care facilities owned in both periods increased 18% during the three month period ended June 30, 2001 as compared to the comparable prior year quarter and increased 14% during the six month period ended June 30, 2001 as compared to the comparable prior year six month period. These increases in same facility net revenues were due to an increase in prices charged to private payors including health maintenance organizations and preferred provider organizations, an increase in Medicare reimbursements which commenced on April 1, 2001 and an increase in patient volumes, as discussed below. Included in the same facility acute care financial results and patient statistical data are the operating results generated at the 60-bed McAllen Heart Hospital which was acquired by the Company in March of 2001 and is now operating under the same license as an integrated department of McAllen Medical Center.

Admissions to the Company's acute care facilities owned in both quarters increased 6% during the quarter ended June 30, 2001 over the comparable 2000 quarter and patient days at these facilities increased 8% for the three months ended June 30, 2001 as compared to the comparable prior year quarter. The average length of stay at the acute care facilities owned during both periods increased 2% to 4.8 days for the three month period ended June 30, 2001 as compared to 4.7 days in the comparable prior year quarter. Admissions to the Company's acute care facilities owned in both six month periods increased 4% during the six month period ended June 30, 2001 over the comparable 2000 period and patient days at these facilities increased 5% for the six month ended June 30, 2001 as compared to the comparable prior year period. The average length of stay at the acute care facilities owned during both six month periods remained unchanged at 4.8 days. Despite the increase in patient volume at the Company's facilities, inpatient utilization continues to be negatively affected by payor-required, pre-admission authorization and by payor pressure to maximize outpatient and alternative healthcare delivery services for less acutely ill patients. Additionally, the hospital industry in the United States as well as the Company's acute care facilities continue to have significant unused capacity which has created substantial competition for patients. The Company expects the increased competition, admission constraints and payor pressures to continue.

The Company's facilities have experienced an increase in inpatient acuity and intensity of services as less intensive services shift from an inpatient basis to an outpatient basis due to technological and pharmaceutical improvements and continued pressures by payors, including Medicare, Medicaid and managed care companies to reduce admissions and lengths of stay. To accommodate the increased utilization of outpatient services, the Company has expanded or redesigned several of its outpatient facilities and services. Gross outpatient revenues at the Company's acute care facilities owned during the three month periods ending June 30, 2001 and 2000 increased 22% in the second quarter of 2001 as compared to the comparable 2000 quarter and comprised 26% of the Company's acute care gross patient revenue in the second quarter of 2001 as compared to 27% during the 2000 comparable quarter. Gross outpatient revenues at

these facilities increased 23% during the six month period ended June 30, 2001 as compared to the comparable prior year period and comprised 26% of the Company's acute care gross patient revenue during the each of the six month periods ended June 30, 2001 and 2000.

The increase in net revenue as discussed above was negatively effected by lower payments from the government under the Medicare program as a result of the Balanced Budget Act of 1997 ("BBA-97") and increased discounts to insurance and managed care companies (see General Trends for additional disclosure). The Company anticipates that the percentage of its revenue from managed care business will continue to increase in the future. The Company generally receives lower payments per patient from managed care payors than it does from traditional indemnity insurers.

At the Company's acute care facilities, operating expenses, (salaries, wages and benefits, other operating expenses, supplies expense and provision for doubtful accounts) as a percentage of net revenues were 82.5% and 81.5% for the three months ended June 30, 2001 and 2000, respectively, and 81.5% and 80.8% for the six months ended June 30, 2001 and 2000, respectively. Operating margins (EBITDAR) at these facilities were 17.5% and 18.5% during the quarters ended June 30, 2001 and 2000, respectively, and 18.5% and 19.2% during the six month periods ended June 30, 2001 and 2000, respectively. At the Company's acute care facilities owned in both three and six month periods ended June 30, 2001 and 2000, operating expenses (salaries, wages and benefits, other operating expenses, supplies expense and provision for doubtful accounts) as a percentage of net revenues were 82.6% and 81.3% for the three months ended June 30, 2001 and 2000, respectively, and 81.4% and 80.8% for the six months ended June 30, 2001 and 2000, respectively. Operating margins (EBITDAR) at these facilities were 17.4% and 18.7% during the quarters ended June 30, 2001 and 2000, respectively, and 18.6% and 19.2% during the six month periods ended June 30, 2001 and 2000, respectively.

Despite the strong revenue growth experienced at the Company's acute care facilities during the three and six month periods ended June 30, 2001 as compared to the comparable prior year periods, operating margins at these facilities were lower in the 2001 periods as compared to the prior year periods due to increases in salaries, wages and benefits, pharmaceutical expense, bad debt expense and insurance expense. Salaries, wages and benefits increased primarily as a result of rising labor rates, particularly in the area of skilled nursing and the increase in pharmaceutical expense was caused primarily by increased utilization of high-cost drugs. Bad debts were increased during the quarter to reserve for receivables due from two insolvent HMOs that filed for bankruptcy in Louisiana and Puerto Rico while the increase in insurance expense was caused primarily by unfavorable industry-wide pricing trends for commercial hospital professional and general liability coverage. The Company expects the expense factors mentioned above to continue to pressure future operating margins.

Behavioral Health Services - - - - -

Net revenues from the Company's behavioral health services facilities accounted for 20% and 14% of consolidated net revenues during the three month periods ended June 30, 2001 and 2000, respectively, and 20% and 14% for the six month periods ended June 30, 2001 and 2000, respectively. Net revenues at the Company's behavioral health services facilities owned in both periods increased 10% during the three month period ended June 30, 2001 as compared to the comparable prior year quarter. Admissions and patient days at these facilities increased 6% and 4%, respectively, during the three month period ended June 30, 2001 as compared to the comparable prior year quarter. The average length of stay at the behavioral health services facilities owned in both periods decreased 2% to 11.9 days during the 2001 second quarter as compared to 12.1 days in the comparable prior year period.

Net revenues at the Company's behavioral health services facilities owned in both six month periods increased 9% during the six month period ended June 30, 2001 as compared to the comparable prior year period. Admissions and patient days at these facilities increased 6% and 5%, respectively, during the six month period ended June 30, 2001 as compared to the comparable prior year period. The average length of stay at the behavioral health services facilities owned in both periods decreased 2% to 11.5 days during the 2001 six month period as compared to 11.8 days in the comparable prior year period.

At the Company's behavioral health care facilities, operating expenses (salaries, wages and benefits, other operating expenses, supplies expense and provision for doubtful accounts) as a percentage of net revenues were 79.7% and 79.6% for the three month periods ended June 30, 2001 and 2000, respectively, and 80.0% and 80.6% for the six month periods ended June 30, 2001 and 2000, respectively. Operating margins (EBITDAR) at these facilities were 20.3% and 20.4% during the three months periods ended June 30, 2001 and 2000, respectively, and 20.0% and 19.4% during the six month periods ended June 30, 2001 and 2000, respectively. On a same facility basis, operating expenses (salaries, wages and benefits, other operating expenses, supplies expense and provision for doubtful accounts) as a percentage of net revenues were 78.3% and 79.6% for the three month periods ended June 30, 2001 and 2000, respectively, and 79.0% and 80.6% for the six month periods ended June 30, 2001 and 2000, respectively. Operating margins (EBITDAR) at these facilities were 21.7% and 20.4% during the quarters ended June 30, 2001 and 2000, respectively, and 21.0% and 19.4% during the six month periods ended June 30, 2001 and 2000, respectively. In an effort to maintain and potentially further improve the operating margins at its behavioral health care facilities, management of the Company continues to implement cost controls and price increases and also continues its increased focus on receivables management.

Other Operating Results

The Company recorded minority interest expense in the earnings of consolidated entities amounting to \$3.7 million and \$3.4 million for the three months ended June 30, 2001 and 2000, respectively, and \$7.6 million and \$6.5 million for the six month periods ended June 30, 2001 and 2000, respectively. The minority interest expense recorded during both periods consists primarily of the minority ownership's share of the net income of four acute care facilities, three of which are located in Las Vegas, Nevada and one located in Washington, D.C.

Interest expense increased \$3.3 million to \$10.5 million during the three months ended June 30, 2001 and increased \$4.4 million to \$19.0 million during the six months ended June 30, 2001, as compared to the comparable prior year periods. The increases during the 2001 periods as compared to the comparable prior year periods were due primarily to increased borrowings used to finance the purchase of twenty-seven acute care and behavioral health care facilities acquired in the U.S. and France since the third quarter of 2000.

Depreciation and amortization expense increased \$4.1 million to \$32.2 million during the three months ended June 30, 2001 and increased \$6.2 million to \$62.0 million during the six months ended June 30, 2001, as compared to the comparable prior year periods. The increases during the 2001 periods as compared to the comparable prior year periods were due primarily to increased expense incurred in connection with the acquisitions mentioned above.

The effective tax rate was 36% for each of the three and six month periods ended June 30, 2001 and 2000.

General Trends

A significant portion of the Company's revenue is derived from fixed payment services, including Medicare and Medicaid which accounted for 42% and 44% of the Company's net patient revenues during the three month periods ended June 30, 2001 and 2000, respectively, and 41% and 44% of the Company's net patient revenues during the six month periods ended June 30, 2001 and 2000, respectively. The Medicare program reimburses the Company's hospitals primarily based on established rates by a diagnosis related group for acute care hospitals and by cost based formula for behavioral health facilities. Historically, rates paid under Medicare's prospective payment system ("PPS") for inpatient services have increased, however, these increases have been less than cost increases. Pursuant to the terms of BBA-97, there were no increases in the rates paid to hospitals for inpatient care through September 30, 1998 and reimbursement for bad debt expense and capital costs as well as other items were reduced. Inpatient operating payment rates increased 0.5% for the period of October 1, 1998 through September 30, 1999, however, the modest rate of increase was less than inflation and was more than offset by the negative impact of converting reimbursement on skilled nursing facility patients from a cost based reimbursement to a prospective payment system and from lower DRG payments on certain patient transfers mandated by BBA-97. Inpatient operating payment rates were increased 1.1% for the period of October 1, 1999 through September 30, 2000, however, the modest increase was less than inflation and was more than offset by the negative impact of increasing the qualification threshold for additional payments for treating costly inpatient cases (outliers). Payments for Medicare outpatient services historically have been paid based on costs, subject to certain adjustments and limits. BBA-97 requires that payment for those services be converted to PPS, which was implemented on August 1, 2000. The implementation of outpatient PPS has not had a material impact on the Company's results of operations.

During the fourth quarter of 2000, Congress passed the Medicare, Medicaid and SCHIP Benefits Improvement and Protection Act of 2000 ("BIPA") which, among other things, increased Medicare and Medicaid payments to health care providers by \$35 billion over 5 years with approximately \$12 billion of this amount targeted for hospitals and \$11 billion for managed care payors. These increased reimbursements to hospitals pursuant to the terms of BIPA commenced in April, 2001 and for the period of April 1, 2001 through September 30, 2001, the additional reimbursements will be remitted to hospitals at twice the scheduled amounts. BBA-97 established the annual update for Medicare at market basket minus 1.1% in both fiscal years 2001 (October 1, 2000 through September 30, 2001) and 2002 and BIPA revised the update at the full market basket in fiscal year 2001 and market basket minus .55% in fiscal years 2002 and 2003. Additionally, BBA-97 reduced reimbursement to hospitals for Medicare bad debts to 55% and BIPA increased the reimbursement to 70%, with an effective date for the Company of January 1, 2001. The Company estimates that the implementation of BIPA will result in an increase in net revenues and pre-tax income of approximately \$5 million to \$10 million during 2001.

The healthcare industry is subject to numerous laws and regulations which include, among other things, matters such as government healthcare participation requirements, various licensure and accreditations, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government action has increased with respect to investigations and/or allegations concerning possible violations of fraud and abuse and false claims statutes and/or regulations by healthcare providers. Providers that are found to have violated these laws and regulations may be excluded from participating in government healthcare programs, subjected to fines or penalties or required to repay amounts received from government for previously billed patient services. While management of the Company believes its policies, procedures and practices comply with

governmental regulations, no assurance can be given that the Company will not be subjected to governmental inquiries or actions.

In Texas, a law has been passed which mandates that the state senate apply for a waiver from current Medicaid regulations to allow the state to require that certain Medicaid participants be serviced through managed care providers. The Company is unable to predict whether Texas will be granted such a waiver or the effect on the Company's business of such a waiver. Upon meeting certain conditions, and serving a disproportionately high share of Texas' and South Carolina's low income patients, five of the Company's facilities located in Texas and one facility located in South Carolina became eligible and received additional reimbursement from each state's disproportionate share hospital fund. Beginning in the third quarter of 1999, as a result of reductions stemming from BBA-97 and program redesigns by the two states, the Company's Medicaid disproportionate share reimbursements were reduced by approximately \$11 million annually, on a prospective basis. Beginning in the third quarter of 2000, the Medicaid disproportionate share reimbursements were reduced by an additional \$2.5 million annually, on a prospective basis. Included in the Company's financial results was an aggregate of \$9.1 million (including a favorable \$2.8 million prior period adjustment) and \$7.7 million for the three month periods ended June 30, 2001 and 2000, respectively, and \$15.5 million and \$15.4 million for the six month periods ended June 30, 2001 and 2000, respectively, (including reimbursements received at an acute care hospital located in Texas acquired during the third quarter of 2000). Failure to renew these programs, which are scheduled to terminate in the third quarter of 2001, or further reductions in reimbursements, could have a material adverse effect on the Company's future results of operations.

Pressures to control health care costs and a shift away from traditional Medicare to Medicare managed care plans have resulted in an increase in the number of patients whose health care coverage is provided under managed care plans. Approximately 39% and 34% of the Company's net patient revenues for the three month periods ended June 30, 2001 and 2000, respectively, and 37% and 33% of the Company's net patient revenues for the six month periods ended June 30, 2001 and 2000, were generated from managed care companies, which includes health maintenance organizations and preferred provider organizations. In general, the Company expects the percentage of its business from managed care programs to continue to grow. The consequent growth in managed care networks and the resulting impact of these networks on the operating results of the Company's facilities vary among the markets in which the Company operates. Typically, the Company receives lower payments per patient from managed care payors than it does from traditional indemnity insurers, however, during the past year, the Company secured price increases from many of its commercial payors including managed care companies.

Effective January 1, 1998 the Company's subsidiaries are covered under commercial insurance policies which provide for a self-insured retention limit for professional and general liability claims for most of its subsidiaries up to \$1 million per occurrence, with an average annual aggregate for covered subsidiaries of \$7 million through 2001. These subsidiaries maintain excess coverage up to \$100 million with major insurance carriers. The Company's remaining facilities are fully insured under commercial policies with excess coverage up to \$100 million maintained with major insurance carriers. Due to unfavorable pricing and availability trends in the professional and general liability insurance markets, the cost of commercial professional and general liability insurance coverage has risen significantly. Therefore, there can be no assurance that the Company will be able to purchase commercial policies at reasonable premiums upon the December 31, 2001 expiration of current policies. If the cost of obtaining commercial policies becomes cost prohibitive, the Company may have to assume a greater portion of the hospital professional and general liability risk or become fully self-insured for some or all of its facilities.

Additionally, there can be no assurance that the increased insurance expense incurred in connection with either commercially or self-insured professional and general liability policies will not have a material adverse effect on the Company's future results of operations.

Health Insurance Portability and Accountability Act of 1996

Regulations related to the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") are expected to impact the Company and others in the healthcare industry by:

- . Establishing standardized code sets for financial and clinical electronic data interchange ("EDI") transactions to enable more efficient flow of information. Currently there is no common standard for the transfer of information between the constituents in healthcare and therefore providers have had to conform to each standard utilized by every party with which they interact. The goal of HIPAA is to create one common national standard for EDI and once the HIPAA regulation takes effect, payors will be required to accept the national standard employed by providers. The final regulations establishing electronic data transmissions standards that all healthcare providers must use when submitting or receiving certain healthcare transactions electronically were published in August, 2000 and compliance with these regulations is required by October, 2002.
- . Mandating the adoption of security standards to preserve the confidentiality of health information that identifies individuals. Currently there is no recognized healthcare standard that includes all the necessary components to protect the data integrity and confidentiality of a patient's personal health record. The final regulations containing the privacy standards were released in December, 2000 which require compliance by February, 2003, however, it is possible that the privacy regulations could be amended or their implementation delayed.
- . Creating unique identifiers for the four constituents in healthcare: payors, providers, patients and employers. HIPAA will mandate the need for the unique identifiers for healthcare providers in an effort to ease the administrative challenge of maintaining and transmitting clinical data across disparate episodes of patient care.

Non-compliance may result in fines, loss of accreditation and/or threat of civil litigation. The Company has begun preliminary planning for implementation of the necessary changes required pursuant to the terms of HIPAA. However, the Company can not currently estimate the implementation cost of the HIPAA related modifications and consequently can give no assurances that issues related to HIPAA will not have a material adverse effect on the Company's consolidated financial condition or results of operations.

Liquidity and Capital Resources

Net cash provided by operating activities was \$160 million during the six months ended June 30, 2001 and \$97 million during the comparable prior year period. The \$63 million increase during the 2001 six month period as compared to the comparable prior year period was primarily attributable to: (i) a favorable \$31 million change due to an increase in net income plus the addback of depreciation and amortization expense, minority interest in earnings of consolidated entities, accretion of discount on convertible debentures and losses on foreign exchange and derivative transactions; (ii) a favorable \$18 million change in accounts receivable, and; (iii) \$14 million of other net favorable working capital changes.

During the first quarter of 2001, the Company acquired the following facilities for a total investment of approximately \$192 million (including a \$13 million increase in working capital accounts at purchased facilities where working capital was not included in the purchase transaction): (i) a 108-bed behavioral health care facility located in San Juan Capestrano, Puerto Rico; (ii) a 96-bed acute care facility located in Murrieta, California; (iii) two behavioral health care facilities located in Boston, Massachusetts; (iv) a 60-bed specialty heart hospital located in McAllen, Texas; (v) an outpatient surgery center located in Reno, Nevada, and; (vi) the purchase of an 80% ownership interest in an operating company that owns eight hospitals located in France. Also during the six month period of June 30, 2001, the Company spent \$69 million to finance capital expenditures as compared to \$46 million during the six month period of 2000.

As of June 30, 2001, the Company had approximately \$225 million of unused borrowing capacity under the terms of its \$400 million revolving credit agreement which matures in July 2002 and provides for interest at the Company's option at the prime rate, certificate of deposit plus 3/8% to 5/8%, Euro-dollar plus 1/4% to 1/2% or money market. A facility fee ranging from 1/8% to 3/8% is required on the total commitment. The margins over the certificate of deposit, the Euro-dollar rates and the facility fee are based upon the Company's leverage ratio. As of June 30, 2001, the Company had \$25 million of unused borrowing capacity under the terms of its \$100 million, annually renewable, commercial paper program. A large portion of the Company's accounts receivable are pledged as collateral to secure this program. This annually renewable program, which began in 1993, is scheduled to expire or be renewed on October 30th of each year. The Company's total debt as a percentage of total capitalization was 46% at June 30, 2001 and 43% at December 31, 2000. The increase during the six months ended June 30, 2001 was due increased borrowings under the Company's revolving credit facility to finance the acquisitions mentioned above.

In April, 2001, the Company declared a two-for-one stock split in the form of a 100% stock dividend which was paid on June 1, 2001 to shareholders of record as of May 16, 2001. All classes of common stock participated on a pro rata basis.

The Company expects to finance all capital expenditures and acquisitions with internally generated funds and borrowed funds. Additional funds may be obtained either through refinancing the existing revolving credit agreement and/or the commercial paper facility and/or the issuance of equity or long-term debt.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in quantitative and qualitative disclosures in 2001. Reference is made to Item 7 in the Annual Report on Form 10-K for the year ended December 31, 2000.

Item 4. Submission of Matters to a Vote of Security Holders

(a) The following information relates to matters submitted to the election of shareholders of Universal Health Services, Inc. (the "Company") at the Annual Meeting of Stockholders held on May 23, 2001.

(b) Not applicable

(c) At the meeting, the following proposals, as described in the proxy statement delivered to all the Company's stockholders were approved by the votes indicated:

Election by Class A & Class C stockholders of Class II Directors:

	Anthony Pantaleoni -----	Joseph T. Sebastianelli -----
Votes cast in favor	2,118,367	2,118,367
Votes withheld	-0-	-0-

Election by Class B & Class D stockholders of a Class II Director, Robert H. Hotz:

Votes cast in favor	23,671,950
Votes withheld	365,780

Adoption of the Amendment to the Company's Restated Certificate of Incorporation:

Votes cast in favor	23,810,292
Votes cast against	147,251
Votes abstained	9,047
Broker non-votes	2,226,459

Adoption of the Amendment to the Company's Amended and Restated 1992 Stock Option Plan:

Votes cast in favor	23,318,215
Votes cast against	364,534
Votes abstained	16,451
Broker non-votes	2,493,849

Adoption of the 2001 Employees' Restricted Stock Purchase Plan:

Votes cast in favor	23,242,623
Votes cast against	434,113
Votes abstained	10,306
Broker non-votes	2,506,007

(d) Not applicable

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

(b) Report on Form 8-K dated July 3, 2001, reported under Item 5, notifying the Trustee and all holders of the Company's Convertible Debentures Due 2020, of the amendment to the Company's Restated Certificate of Incorporation to increase the number of authorized shares of Class B Common Stock from 75,000,000 to 150,000,000 and the two-for-one stock split declared in the form of a 100% dividend effected on June 1, 2001.

11. Statement re computation of per share earnings is set forth on Page 9 in Note 6 of the Notes to the Condensed Consolidated Financial Statements.

All other items of this Report are inapplicable.

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Universal Health Services, Inc.
(Registrant)

Date: August 10, 2001

/s/ Kirk E. Gorman

Kirk E. Gorman, Senior Vice President and
Chief Financial Officer

(Principal Financial Officer and
Duly Authorized Officer).